

SEGA / MESP ANNUAL REPORT

OCTOBER 2002 TO SEPTEMBER 2003

Highlights of the SEGA/MESP project for the year were the HIV/AIDS Research Programme, the launch of the Mandela Economics Scholars Alumni Association, the Parliamentary Training and the Consumer Credit Reform. These and all other SEGA/MESP activities are discussed in this annual report.

HIGHLIGHTS: HIV/AIDS RESEARCH

What began as a capacity building project to encourage South African economists to explore the economic issues surrounding the pandemic of HIV/AIDS, has evolved into the provision of excellent research that is useful for policymakers. Some of the primary data collected by household surveys is the best in the country for exploring important issues of how households cope with the pandemic. The group of researchers involved in the project have become involved in debates on HIV/AIDS studies internationally. The project is also a model of donor cooperation with funding provided jointly by USAID, AusAID, DFID, the UNDP and hopefully also others. The third round of research has just been commissioned with intensive involvement by government departments in setting the terms of reference and actively participating in the research. SEGA/MESP-sponsored research on the cost of antiretrovirals and on the macroeconomic impact of a treatment plan rollout are having major implications in the government's planning.

HIGHLIGHTS: LAUNCH OF THE MANDELA ECONOMICS SCHOLARS ALUMNI ASSOCIATION

The launch of MESAA highlighted the brain gain to the country from a cadre of highly skilled economists making a big difference by employing their skills in the public sector, academia and other sectors. The energy surrounding what was deemed the largest gathering of economists from previously disadvantaged backgrounds in South Africa was tremendous. Alliances among scholars across government departments, between US-trained and local students and between the group of scholars and other professional bodies were formed and strengthened. The MESAA has the potential to influence the economics profession and economic policy in South Africa. (A report of the MESAA launch is already included on USAID's website: www.sn.apc.org/usaidsa)

HIGHLIGHTS: PARLIAMENTARY TRAINING

What began as Economic Literacy Training for members of Parliamentary committees dealing with economic issues has developed into a successful structured training program. Parliamentarians note a direct improvement in their work performance as a result of their training: they have demonstrated their ability to engage with complex economic issues and to raise valuable points in key Parliamentary debates. Internal promotions within Parliament itself are indicative of the success of the course: One of the leaders of the group, Mr. Nhlanhla Nene, was appointed chair of the newly established Joint Budget Committee during this fiscal year, and another participant, Mr. Don Gumede was promoted to Whip. Two of the Parliamentarians, including Mr. Gumede, scored the highest results of all UNISA students enrolled in the Certificate in Economic Principles. The third Caledon course, focusing this year on international economics, was an intensive three-week training and brought together Parliamentarians at different levels of training for intensive study. The training, together with work by the Association of Public Accounts Committees, combined with the fact that Parliament now has the right to amend the executive branch budget, will mean much greater accountability for South Africa.

HIGHLIGHTS: CONSUMER CREDIT REFORM

Work with the South African Micro Finance Regulatory Council (MFRC) is beginning to pay off in terms of legislative changes, increased compliance with fair lending rules and increased registration of lenders. A detailed report on the weaknesses in the consumer credit market, together with recommendations regarding new legislation and changes to the enforcement framework was compiled and has been formally handed to the Director General of **the dti**. A briefing of the joint portfolio committees of parliament on the credit law review policy took place in Parliament and this work is moving into public debate. In mid 2003, amendments to the Usury Act were passed that gave the MFRC the mandate to investigate unregistered lenders. This new mandate, together with SEGA/MESP's support of capacity building for the MFRC on investigations has already resulted in some "admissions of guilt" by unregistered lenders and is partially credited for the large increase in registrations in the second half of the year. Investigations into use or misuse of the National Loans Register are resulting in increased compliance by registered lenders.

ANNUAL REPORT – INTRODUCTION

USAID support of economic policy analysis for the South African government and for capacity building of previously disadvantaged individuals and institutions through the SEGA / MESP Project continued successfully over calendar year 2003. To the end of September 2003, the project had expended approximately \$22.7 million, out of a current contract ceiling of \$25.7 million. Final negotiations are ongoing for a \$3 million contract extension to cover activities for the next 18 months or so. The project officially ends in January 2006, but it is likely that a new mechanism for USAID's economic capacity building will be initiated long before then.

MANDELA ECONOMICS SCHOLARS PROGRAM (MESP)

U.S. Graduate Training Program (MESP)

Currently, all returned scholars are working and all of the students who returned this year are employed as economists by government or universities. The SEGA office will continue to monitor the students' placement and assist where necessary. The benefits of the program continue to grow as the returned scholars gain experience in public service. The scholars' strong links with one another through the shared experience of mathematics "boot camp" and living overseas will continue to prove useful professionally and personally. All of the original MESP students are listed in the appendix table, with their current employment.

Eleven scholars remain in the United States to complete PhDs. Four scholars are expected to complete their PhD studies by the end of the calendar year 2003 and the SEGA/MESP office will work with them on appropriate placement prior to their return to South Africa:

Thabo Mabogoane, Syracuse University, Economics of Education

Kudayja Parker-Jhazbhai, University of Florida (for Masters)/University of Nebraska,
Development Economics

Victor Munyama, University of Oklahoma (Masters) / Colorado State University,
Macro & Financial Economics

Alpheus Nelufule, Colorado State University, Development Economics (may be delayed)

Local Bursary Program (MESP2)

After the last intake of the original MESP program, a local bursary program was established for previously disadvantaged students to obtain Masters' degrees in specific innovative fields of economics in South Africa. During the year, SEGA/MESP staff visited each of the universities selected for this program. The attached table shows both the 2002 and 2003 intake for the MESP2 program at the University of Natal/Durban (UND), University of Stellenbosch (US) and the University of Cape Town (UCT). A total of 46 students are anticipated to complete their Masters degrees under this programme with the first two intakes. A new intake of students is scheduled for January 2004 and the programme has been widely advertised.

Of the 23 students who started the MESP bursary programmes in 2002, only 3 have finished their degrees as of September 2003. Many of the students are now working and have yet to submit their dissertations. A common issue at all three universities was the issue of lack of funding for research purposes by the students at the completion of their course work. To date,

most students have been funded for coursework only, as recommended by the departments. However, we are currently reviewing the programmes and discussing with professors if at the end of the coursework, for those who wish to remain on campus, there should be an additional semester paid of funding so that students can continue with research and writing of their thesis full time.

The universities have seen an increase in the numbers of students enrolling for their Masters' programmes, besides the MESP scholars. This bodes well for the programmes' long-term sustainability. All three universities have commented on the spillover effects that the MESP is having on their departments and their universities. Short reports from each university are below, and detailed reports are available from the SEGA/MESP office.

University of Natal

Professor John Hart writes that "while the SEGA students have benefited from studying at Natal, our department has also been enriched through their presence." He adds that through attendance at departmental workshops, the students "received a first-hand experience in the content, method and 'style' of economic research in SA today, while their presence has broadened the scope of debate." The university has 14 students enrolled in the first-year courses and 10 students are finishing up their Masters degrees. At the beginning of the year the university runs an orientation programme for the MESP students. This includes a writing skills course and computer skills. The students find these to be very beneficial. At the students' suggestion, someone from Nathan Associates and from the university bursary office will meet them at the beginning of the year to explain the bursary programme. Natal has a problem in terms of the university's bursary office delays in paying out the funds to the students. The matter has been reviewed and the SEGA/MESP office will pay a small settling-in allowance to students at the beginning of each semester (to count as part of the overall bursary amount). Students are monitored by semester and unfortunately two students had not performed well and were asked to leave the programme.

University of Cape Town

The progress of the students was generally good, and in case the department assisted a student by reducing his work load and extending his time by an additional semester. Worrisome is the fact that UCT has no women enrolled for the MESP bursary.

The University of Cape Town does not have any orientation programme in place and USAID and the SEGA/MESP office advised them that it would be beneficial to run such a programme to assist students from other institutions, especially from HDU's, who may not be accustomed to the culture at that university. This was also an issue raised by the students themselves. Besides managing the bursary programme for students, UCT also runs extension courses and outreach programmes that are aimed at capacity building for the university staff as well as government departments and staff and students from surrounding HDU's. Various courses in the field of trade (impact assessment and CGE modelling) have been successfully offered by the department. MESP students from other campuses were funded to attend the courses. In the Labour field, there were extension courses offered in the past. However, since there were no students registered for the Labour Economics programme this year, funding for outreach courses was curtailed.

Stellenbosch University

Progress by the students has been very good and generally improved over the year. At the beginning of the year the university also runs an orientation programme for the MESP students. This includes a writing skills course, Maths and Computer skills. The students find these to be very beneficial, they would also like to have someone from Nathan Associates and from the university bursary office coming to explain to them about the bursary. Stellenbosch is very supportive of the MESP programme and has made the most adjustments in their program to suit students from other universities. Stellenbosch co-funds the MESP bursaries with USAID.

Launch of the Mandela Economics Scholars Alumni Association

Both US-based and local scholars joined together in September 2003 for **the launch of the Mandela Economics Scholars Alumni Association (MESAA)**. The alumni association is geared to foster open debate on important economic issues facing the country. A draft constitution was adopted over the weekend, and an initial committee of ten was elected. The group is planning to further encourage research among their own ranks, and to work further improve the attractiveness of advanced economics training throughout the country. Andile Mazwai of BJM Securities discussed his own career path with the group, and Modise Motloba of the Association of Black Securities and Investment Professionals provided ideas on how the MESAA can engage with other professional bodies.

A number of the scholars also attended the annual economic policy forum of the Trade and Industrial Policy Secretariat and Development Policy Research Unit (TIPS/DPRU). The MESAA launch was announced at the dinner of that conference, which was attended by the Minister of Finance, Trevor Manuel. During site visits to the three local participating MESP departments, faculty and students both commented how important this engagement was for the local bursary students.

Speaking to the dinner launch of MESAA, the Deputy Minister of Finance Mandisi Mpahlwa, who has also recently completed an advanced degree in economics under another program, said “This programme serves as an example of the important role that social investment can play in enhancing human capital... The enormous talent that is present here tonight encourages me that we have put in place a strong foundation to ensure a prosperous future.” He added, “May this launch be symbolic of the birth of a force to be reckoned with, and may this Association of Alumni be a truly influential establishment, which will take its rightful place in our quest for more constructive ideas, for more commitment, and for more unwavering dedication to the achievement of a society we can all be proud of.”

SUPPORT TO GOVERNMENT ACTIVITIES (SEGA)

TECHNICAL ASSISTANCE FOR GOVERNMENT

Numerous activities for government progressed over the year. These are arranged by the primary government partner.

Micro Finance Regulatory Council, Consumer Credit Reform

Work with the South African Micro Finance Regulatory Council is progressing rapidly. In 2002 **the dti** appointed a Technical Committee to review the regulatory environment for small loans and consumer credit in South Africa, in order to make recommendations for legislative and regulatory reform. A detailed report on the weaknesses in the consumer credit market, together with recommendations regarding new legislations and changes to the enforcement framework was compiled. The report of the Technical Committee has been formally handed to the Director General of **the dti**. A briefing of the joint portfolio committees of parliament on the credit law review policy took place in Parliament on 9 September 2003.

Investigations into the practices of unregistered lending practices are being completed and a number of high-profile cases are moving through the judicial system. Lenders who are registered with the MFRC are subject to a fairly rigorous inspection process, and the MFRC has been successful in prosecuting a number of registered lenders for contravening their regulations. However, unregistered lenders were investigated by **the dti** and there had not been many prosecutorial successes. The higher degree of enforcement among registered lenders vis-à-vis unregistered lenders created skewed incentives and the unregistered moneylenders are disregarding the regulations with increasing impunity. The danger with the scenario was that lenders will increasingly see no benefit of registration and will simply go “underground”. In mid 2003, amendments to the Usury Act were passed that gave the MFRC the mandate to investigate unregistered lenders. This new mandate, together with SEGA/MESP’s support of capacity building for the MFRC on investigations has already resulted in some “admissions of guilt” by unregistered lenders and is partially credited for the large increase in registrations in the second half of the year.

During the Credit Law Review, two important topics arose that will be the focus of additional research: competition in the banking sector and the township residential mortgage markets. For the competition study, a joint task team has been appointed by the Reserve Bank and National Treasury and the SEGA/MESP project will provide research input to the task team. On township mortgages, the lack of many to low-cost secure credit mechanisms such as mortgages arose as a major factor in the high cost of credit, particularly for low-income individuals. To address this question, a large research study will explore the market in considerable detail. SEGA/MESP will co-fund this study, together with FinMark Trust, the National Treasury, the National Housing Finance Corporation and the Ford Foundation.

A number of these issues were addressed at an international conference on “Current Issues in Microfinance”. SEGA/MESP sponsored Mr. Walter (Bernie) Mason, of the U.S. Treasury’s Office of Thrift Supervision (OTS) and Federal Deposit Insurance Corporation to participate in the conference. Mr. Mason worked closely with MFRC CEO Gabriel Davel during his visit to South Africa, and also briefed South African National Treasury officials on the US system of deposit insurance.

Work with the MFRC, funded in part by the Washington-based PRIME project and USAID’s employment strategic objective (SO5), will continue and accelerate in the coming months. A consultant has been seconded to **the dti** to assist with the management and co-ordination of the credit law reform process by assisting with the management and co-ordination of internal and external consultation and dissemination of the Report of the Technical Committee.

New Campus Development as a PPP for Department of Trade and Industry

Peter Aborn continues in his role as Project Champion for the development of the new dti campus. The project is described in more detail in other SEGA/MESP reports. During this year, **the dti** has appointed a head of its own PPP Management Unit. The renovation of Mahube House, the art deco building on the site, has been completed and the Project Champion and the dti's PPP Management Unit have moved into offices overlooking the construction.

After the termination of the initial preferred bidder, the Rainprop consortium was appointed as preferred bidder and groundworks and construction continued. Financial close was reached in a record 29 weeks from appointment of reserve bidder as Preferred Bidder. The Project achieved the critical delivery milestone of full financial close with the ringing of the senior lender's closing bell in downtown Johannesburg on 25 August 2003. The project overall, despite significant challenges including decontamination of an environmentally polluted site and termination of the initial Preferred Bidder will have progressed from advert for a Transaction Advisor to move-in in 39 months.

At this point, what had been an early works project carried forward at public sector risk became a simple works in progress project by the concessionaire at private sector risk, a sea change in the risk profile of the project, and a sea change in the decision making processes governing its delivery. All of the parties to the project can now be confident that the dti will move the first 1000 of as many as 2200 staff to the campus in April 2004 (the 10th anniversary year of SA's new democracy), thereby meeting the project's original fail safe delivery goals: To deliver the first new government buildings built by the new government, to ensure the success of the first such project built under the enabling environment of the country's new Public Finance Management Act (PFMA), particularly Chapter 16 governing Public Private Partnerships (PPP's), and to illustrate a new way of doing business for the public service in terms of relationships with the private sector and in terms of a new collaborative work environment.

The project in technical terms is a very large project of over 50,000 square meters of office development in 7 new buildings, on top of a full site super basement of 40,000 square meters, plus the acquisition and renovation of three existing buildings. Over R500 million will be spent on capital works within 15 months of fast track construction. The annual "unitary payment" over 25 years, including every aspect of outsourced campus services provision will be R100 million per year.

One of the buildings, a historically certified national monument former school will house the dti's child care center, the first for a government department in SA. The real significance of the project, however, is not measurable in brick and mortar terms. It was conceived to be, and has already become both instrument and symbol of the complete transformation of the public service in South Africa from a silo based, risk avoidance, compliance and activity based service delivery culture to a fully collaborative, team based, customer focused service delivery culture where accountability and responsibility are married under the country's new PFMA.

Already two major national institutions have adopted the same "new ways of working" model for service delivery using the same low rise campus approach. These two agencies will build almost 100 000 square meters of new ways office development with a private sector infusion of nearly R1 billion in capex investment in the City of Tshwane through Public Partnerships.

So, as USAID has sponsored the development of new and robust PPP policy and the creation of a PPP Unit of National Treasury to promote and regulate PPP's, USAID has now supported the first major pilot project. The project heuristically completes the policy development circle starting with well researched but untested policy, through implementation in a flagship pilot project, with the on the ground lessons returned to refine the policy development work, specifically the imminent promulgation of Standardised PPP Guidance documents that will make all future PPP's much easier to do, much easier to get to market, much easier to deliver faster better.

The project, a partnership between the City of Tshwane and **the dti**, as intended, will now almost certainly result in the complete revitalization of the dangerously declining historic inner city neighborhood of Sunnyside. It has already directly spawned the creation of the ring fenced Nelson Mandela Revitalization Corridor, and within the extended boundaries of the corridor hundreds of millions in imminent redevelopment, three developments directly across the street from the campus itself.

With the bricks and mortar project now being primarily driven to completion by the private sector concessionaire, Peter Aborn has been asked by the Director General of **the dti**, to turn as much of his attention as possible to outcomes assuring the full achievement of all of the socio-economic outcomes for which the new campus as such was just a means to an end.

Other Activities Affiliated with the dti

The South African Internet Economic Study continued this year -- a project steering committee of USAID, Nathan Associates, DTI, UUNet and Statistics South Africa meet regularly. Initial results for the survey of almost 400 small firms in urban areas were outlined in a previous quarterly report. A complementary survey of rural firms' use of the internet is now being finalized and case studies will provide more in-depth analysis of if and how the internet has assisted these concerns.

The National Labour and Economic Development Institute (**NALEDI**) undertakes research in support of the labor movement in South Africa. Economic restructuring in the country has caused major job losses since the mid-1980s, and the Presidential Job Summit held in 1998 brought about agreement between government, business and labor to hold sector job summits in an effort to combat the resultant unemployment. Labor unions in the sectors involved in these summits consequently need to develop proposals for the enhancement of productivity and employment, and to increase their capacity to engage in industrial policy development in these sectors. NALEDI, with funding support from USAID through the SEGA/MESP project and cofunding from **the dti**, is undertaking a project to support labor unions' participation in the ongoing sector job summit (SJS) process. Research in various sectors focuses on issues that reference groups and bargaining councils have identified as important. In most sectors the finalized research reports are fed into union structures, and where the NEDLAC process is advanced they are fed into that as well. Regular SJS researchers meetings are held to build capacity, consolidate learning and build the SJS team. Projects are being undertaken in nine sectors, and detailed progress reports are available from the SEGA/MESP office. NALEDI reports as follows on their progress:

The nine projects have, on the basis of funding received, succeeded in building capacity in the labour movement on the issue of industrial strategy through the development of research that has been driven by consultation and capacity building. The projects have fuelled or fed into processes and initiatives even beyond those that they were originally developed for. This includes a capacity building project for unionists, feeding into the Food Price Task Team at NEDLAC, national initiatives by Labour, inputs into regional task teams based on sectors and issues, inputs to Parliamentary Committees and the development of union affiliate and federation policies. In terms of the development of capacity, Labour has utilised the funding to empower shop stewards and union officials through workshops and literature development.

A new project with the **South African Institute for International Affairs**, an international affairs think tank at Wits University, for a research and capacity building project entitled “Development through Trade” has been very successful at engaging business, government and civil society on trade-related issues. The programme was officially launched in May 2003 and project Director Peter Draper has been very successful in publishing opinion pieces in the media on trade issues. A post-Cancun roundtable was held in September and more than 50 participants from NEDLAC, business, government, labour and academia discussed the collapse of the Cancun Ministerial and the implications for South Africa. USAID is especially supporting the capacity building aspect of this program, while other donors including DFID and the South African private sector, are supporting other components. Papers prepared under this project are listed in the appendix.

Also with **the dti**, American attorney Jim Hanks received support to work with **the dti’s** DDG for Consumer and Regulatory Affairs on **corporate law reform**. While in South Africa, he also lectured on the topic at numerous South African universities. Last November, Peter Minor finalized a report on the **Impact of AGOA on South Africa’s Clothing Sector**, for **the dti’s** Chief Economist. Workshops were held with numerous industry representatives across the country, and the research team briefed the Minister of Trade and Industry, Alec Erwin, on the results.

Land Tenure Reform – Department of Land Affairs

Capacity building activities for the South African Department of Land Affairs (DLA), Tenure Directorate, continued this year. To this end the department requested SEGA/MESP assistance with the employment of consultants to work with them. One person has been employed for the position of Chief Planner: Systems and Advice in the Land Reform Directorate and another has been hired for a six-month position working with the Communal Property Associations. Both of these consultants have been highly successful and DLA has recently sent both of them for management training courses. The Department has recently advertised four permanent positions so that DLA can permanently expand their capacity to address critical issues in land tenure.

Work with the University of Wisconsin’s Land Tenure Center on the synthesis and publication of materials from an earlier land tenure conference has continued and the final publication is anticipated by the end of the calendar year. The academic articles and discussion will be updated to reflect the current situation.

The South African Department of Land Affairs was invited by the Land Tenure Center and the Centre for Applied Social Sciences of the University of Zimbabwe to attend a symposium that the two NGOs jointly organized, together with USAID/Zimbabwe. The symposium was titled “Delivering Land and Securing Livelihoods: Post-Independence Land Reform and Resettlement in Zimbabwe” and was held from 26 – 28 March 2003 in Nyanga, Zimbabwe. The three officials attended from the department. At the request of the organizers of the symposium the team from South Africa was asked to do a brief presentation on land reform in South Africa. They presented a brief overview on the land reform in South Africa and an overview of the land administration as proposed in the draft Communal Land Rights Bill with specific emphasis on the principles underpinning this aspect of the Bill. The DLA participants found the discussion relevant and informative.

Also during this year, the Director General of the Department of Land Affairs and one other high-level DLA participant were co-funded by the SEGA/MESP project for a study tour of the land reform programmes in Brazil and Mexico. A larger group will be making a similar trip with DFID funding early next year because the approaches in Central and South America hold many examples and lessons for the South Africans.

Other activities with the Land Tenure Directorate are still being developed. These include support for developing an Alternate Dispute Resolution mechanism, research into the costing of the Communal Land Rights Bill, and research to quantify the number and conditions of South Africans who have been evicted from farms. Training activities are being developed so that the new staff can quickly get up to speed on land tenure issues.

Intellectual Capital Development

This project is funded as a USAID/Washington-based Global Development Alliance. The primary South African partner on this project, the Southern African Research and Innovation Managers Association (SARIMA), held a workshop and their annual general meeting during March 2003. Discussion of the AGM is provided in a previous quarterly report.

Dr. Andrew Kaniki, the Executive Director of Knowledge Management and Strategy for the National Research Foundation was elected as the new SARIMA President. The Vice Presidents include Dr. Phil Mjwara, CEO of the National Laser Center; Drs. Johann Mouton and Johann Groenewald, of Stellenbosch University; and Ms. Diana Coates of the University of Natal. The new board includes members from the Medical Research Council, Mintek, CSIR, NRF, Universities of Wits, Port Elizabeth, Ft. Hare, and Botswana. A new full-time executive director for SARIMA has been appointed: Ms. Dianna Coates will be based in Durban and will coordinate SARIMA activities. SARIMA’s workplan has been finalized and approved for funding from USAID.

SARIMA have obtained support from the the Department of Science and Technology for their initiatives, including a co-funding of R800,000 over two years. In November, SARIMA, together with the Medical Research Council and the UK-based Centre for the Management of Intellectual Property in Health Research and Development, will co-host a workshop on “Good Practice in IP Strategies for R&D Institutions”, as a piggyback on the 2003 MIHR Board meeting in Cape Town in November, when twelve of the world’s leading international innovation and IP management professionals will be in town.

The Washington-based NGO the **International Intellectual Property Institute** (IPI) was an active participant in the SARIMA workshop. This continues IPI's engagement on intellectual capital issues in South Africa and their key role as an international partner and mentor for SARIMA. A final draft of IPI's research report the policy framework and specific practices in South Africa that impact on the innovation and technology transfer capacity has been circulated to key stakeholders for comment. It is hoped that this analysis will assist SARIMA and the South African government in the preparations for new technology transfer legislation expected in early 2004.

Carbon Sinks Project and Other Environmental Activities

One of the environmental projects financed by SEGA/MESP has taken on a life of its own and deserves to be discussed here, even though it is no longer funded through SEGA/MESP. The USAID-funded research into carbon sinks in South Africa that was completed in 2002 has, over the past year, gradually moved towards implementation in the form of a program called ARISE (African Rural Initiatives for Sustainable Environments). Many discussions were held with various stakeholders. These culminated in a number of commitments in principle from government agencies: the national Department of Environmental Affairs and Tourism has undertaken to fund two natural resource rehabilitation projects to the amount of R10 million each, the first on the Transkei Wild Coast and the second in Mpumalanga, while the Development Bank of Southern Africa has agreed to provide grant funding to support the capacity-building component of implementation projects.

It may be of interest here to draw attention to the employment creation that will result from ARISE. Initial rehabilitation of degraded rural areas will be undertaken in a labor-intensive manner, similar to the operation of the Working for water program; this will create substantial numbers of temporary jobs. After that, the rehabilitated areas will be maintained by members of local communities, who will be trained as community conservators; this will create some permanent jobs. Finally, the rehabilitated rural areas, which will in many instances be in very scenic parts of South Africa, will provide a base on which to develop secondary industries such as nature-based tourism, crafts and the harvesting of natural medicines; again, permanent jobs will be created.

These projects have the potential to make significant impacts on South African society, and we will continue to report on them in quarterly reports even though they have moved out of the realm of SEGA/MESP.

Parliament

Parliamentary Training

The program provides for training of Parliamentarians in Economics, at roughly first- and second-year university level, with a strong policy focus. The significance of this lies in the fact that Parliamentary decision-making inherently involves economic tradeoffs, and to the extent that Parliamentarians understand the fundamentals of Economics, they will be better equipped to participate the decision-making process. It should also be noted that many of the Parliamentarians currently in office have a background of 'struggle' politics and consequently have no tertiary education. The training that they are undergoing has been custom designed for

them, building upon their practical day-to-day Parliamentary work and focusing on policy rather than theory. It has been structured in such a way as to allow them to proceed from a school-level education through to a Masters degree, should they wish to advance that far.

Two cohorts of Parliamentarians are involved in the training. A group of 39 began the programme in 2001, and completed their Certificate in Economic Principles from UNISA. (UNISA's distance learning curriculum is supplemented by intensive lecturing and tutoring by the Cape Town based NGO Economic Policy Research Institute (EPRI)). Two of the Parliamentarians scored the highest results overall among all students enrolled in UNISA's certificate programme. After the UNISA course, the first cohort of students enrolled in the Diploma in Economics at the University of the Western Cape. By December 2003, 37 students are anticipated to have finished the Diploma and those who score well overall may obtain admission to UWC's Masters degree. Additionally, four Parliamentarians who had sufficient background have been enrolled in the policy-oriented Masters degrees at the University of Stellenbosch and are doing very well (supported by another USAID-funded programme).

The programme was so successful that Parliamentarians motivated strongly for it to be expanded: A second cohort of Parliamentarians and other civil servants began the UNISA course in 2003. Both groups participated in another intensive training course at the Caledon Hotel in the Western Cape during the Parliamentary recess in July 2003. This was the third of "Caledon courses" and this year's focus was on international economics and was entitled "Implementing Sustainable Economic Strategies in a Globalizing World".

The results have been very positive, with all the Parliamentarians undergoing training reporting a considerably improved understanding of Parliamentary debates, budgets and so on. In addition, several Cabinet ministers have commented favorably on the training, and some have even enrolled for the course. The Parliamentary coordinators of the course are Ms. Qedani Dorothy Mahlangu, Chairperson of the Select Committee on Finance (NCOP) and Mr. Nhlanhla Musa Nene, Chairperson of the newly established Joint Budget Committee.

Coursework will take a break during the first part of 2004, due to elections. Shortly after the new Parliament convenes, plans are underway for resumption of previous training for those Parliamentarians who remain, and for new economic literacy workshops for all Parliamentarians as part of the induction programme for new Parliamentarians. It is hoped that DFID will also participate in these activities.

Association of Public Accounts Committees (APAC)

Public Accounts Committees are established in the national and provincial legislatures to review the spending of government departments and public enterprises, especially by way of the Auditor General's regular reports. APAC's function is to support these committees, which are made up of elected politicians with limited terms of office, by providing them with a degree of continuity and shared experience. During the past year, USAID funded APAC to produce a 170-page booklet titled "Effective public accounts committees: a best practice handbook for public accounts committees in South Africa". The idea behind the booklet was that national and provincial politicians selected to serve on financial oversight committees will probably, at least to begin with, have little knowledge about how such committees should operate. The booklet spells this out for them. The booklet has been very well received, so much so that the Speaker of

Parliament requested that it be reprinted (with funding by the European Union) so that it could be distributed to all Members of Parliament, instead of just to those on the financial oversight committees.

Other Support to Government Activities

SEGA/MESP continued to support the National Treasury's **macroeconomic modelling**. This work was previously done almost entirely by consultants, but now National Treasury has a strong in-house modelling team (including a MESP scholar), with some outside assistance by Ben Smit, through SEGA/MESP. The team have made many refinements on their model and it is now used extensively for budgeting and policy analysis. In November 2002, National Treasury hosted a workshop on the model with academics, the IMF and consultants. Currently the model is being used to explore the **economic impacts of HIV/AIDS** and in particular, the likely impact of antiretroviral rollout.

The modeling budgeting work on the HAART rollout was given extra capacity in the form of MESP scholar Julian Naidoo's internship at National Treasury, where he worked on a model of costing the price of ARVs and explored strategic ways to lower costs.

Also during the year, continued (but much reduced) short-term training for National Treasury staff continued. Results of two large studies commissioned by SEGA/MESP with and for Treasury were finalized and presented this year: one explored the impact of rand volatility and the other discussed South Africa's international competitiveness by sector.

The SEGA/MESP project funded three in-depth economic studies that explored the state of the economy in the first (almost) ten years of democracy. A summary report "Towards a Ten Year Review" will be released by the Presidency soon that discusses some of the issues addressed in these papers.

ECONOMIC RESEARCH THROUGH NGOS AND UNIVERSITIES

This component of SEGA is managed by the Joint Center for Economic and Political Development, in subcontract with Nathan Associates. Only three of the original grant recipients were still active over the period – the **LIMA** initiative continues to expand land rental markets in Kwa Zulu Natal, Disabled People South Africa (**DPSA**) is working on the technical assistance guidelines for the new Disability Code of Good Practice, and the National Institute for Economic Policy (**NIEP**) think tank has undergone restructuring and offered a few training courses. As of the end of the fiscal year, on the LIMA grant is ongoing.

LIMA

LIMA is an NGO working in rural KwaZulu-Natal. Some years ago, LIMA identified a problem: there are rural people who are very poor and want to farm as a means of subsistence, but have no access to land, while much land stands idle because of absentee landowners. Thus there exists market failure: the supply of and demand for agricultural land are not being matched.

With USAID support, LIMA has been trying to address this situation by creating a land rental market. This is no easy task, because there is no tradition of renting land in South Africa's rural areas, and there is considerable suspicion on the part of potential lessors that they could lose their traditional rights to land, or that they would not be paid by lessees in the event of crop failure. As a result, LIMA's progress has been slow, but nonetheless significant.

Initially, the NGO set itself up as a broker of lease agreements, and gradually the number of transactions taking place grew, largely as a result of the demonstration that the idea actually worked. However, it soon became apparent that rolling out land rentals on a large enough scale to make any impact on rural poverty would require its institutionalization within the provincial department of agriculture. With this in mind, LIMA has altered its focus over the past year and is now working to alert, equip and train agricultural extension officers as future brokers of lease agreements.

Research on the Economic Impact of HIV/AIDS

Round 2 Research Ongoing

Research into the Economic Impact of HIV/AIDS and Its Impact on Governance continued in full force during the year. The research, co-funded by USAID, AusAID and DFID, is beginning to show excellent results and to be used by the policymakers it was intended to serve. Capacity building of the local researchers is showing large rewards. The longitudinal study by the University of the Free State is still ongoing, but is one of the most quoted studies in the field. The project, in line with the general focus of the SEGA/MESP project, has aimed to build local capacity to address these important issues. This aspect and many of the government outreach activities were discussed in the January to March quarterly report.

Technical assistants Drs. Stephen Dike and Hillary Southall and the Joint Center embarked on an intensive review of work completed by the 'Round 2' research teams again in September (details of this review can be found at the end of this report). On the whole, we have been quite pleased with the quality of work undertaken and the capacity building efforts of most of the teams.

As described in an earlier quarterly report, a workshop was held in March to introduce the new projects to government departments and other stakeholders, to establish linkages across projects, and to present interim findings. Also described in an earlier quarterly report, the Department of Social Development held a workshop in March to present the Round 1 research and the workshop was opened by the Minister of Social Development, Zola Skweyiya. A final workshop for all stakeholders presenting results of the Round 2 research is scheduled for **21 November in Pretoria**.

Preparations for Round 3 Research

Following interest by AusAID, DFID and USAID to fund a third round of research, which is more targeted towards the needs to policymakers, the Joint Center and USAID initiated meetings with key government departments to elicit their research priorities in the area of economics and HIV/AIDS. Three Departments namely, Social Development (DSD), Health (DoH) and Treasury, expressed interest in this program and are currently collaborating with the Joint Center in this regard. These topics formed the basis of a Call for Papers which was released in June 2003. The UNDP has agreed to participate in the programme, and we are hopeful that the European Union will also provide additional funds for the third round of research.

SUPPORT TO A CENTER OF EXCELLENCE IN ECONOMICS TRAINING AND RESEARCH AT THE UNIVERSITY OF THE WESTERN CAPE

The Finance and Development Training and Research Unit (FADTRU) in the Department of Economics at the University of the Western Cape

Activities with the University of the Western Cape's Economics Department were discussed in detail in the January to March 2003 quarterly report, and will not be repeated here. The year has been a very active one for FADTRU. From the viewpoint of the SEGA project, it has also been a successful one. Many of the initiatives that were launched in the formative years of FADTRU have now become routine activities, with some of them generating their own revenues, so that FADTRU is no longer as dependent on USAID support as it once was. The concern that existed earlier about whether FADTRU would be sustainable without USAID funding has been allayed – it now seems reasonably clear that FADTRU has reached a point of sustainability.

FADTRU has also achieved a greater degree of independence from SEGA in another respect, with much of its financial administration having been transferred from Nathan Associates to the University of the Western Cape's financial department. This is indicative of the growing extent to which FADTRU is being regarded as an integral and important part of the University overall.

Perhaps the most dramatic evidence of FADTRU's growing maturity has been the growth of student numbers in the University's Department of Economics from approximately 400 in 2000 to around 1000 in 2003, the latter being the maximum that can be accommodated so that some would-be students are being turned away and referred to other university departments.

Another indicator of FADTRU's success is the award and implementation of a new graduate training programme on International Trade and Investment. This Carnegie-funded programme is run jointly with the the University of Pretoria. Faculty members from the two universities participated in exchanges throughout the year. The first intake of students at UWC was in July 2003 and 15 students are receiving bursaries from Carnegie for the programme – the students are from 9 different African countries. Additionally, two students are funded by the Rwandan government and a few are self funded.

Within the overall context of the SEGA/MESP program, FADTRU can be viewed as a successful intervention that is gradually drawing to a close. Given the maturity reflected above, the need for FADTRU to be monitored closely is diminishing. The USAID funds that are still available to support FADTRU have all been allocated to specific activities in a work plan that has a time horizon of 2005, when USAID funding will end.

ANTICIPATED SEGA/MESP ACTIVITIES IN THE YEAR AHEAD

In the next fiscal year, SEGA/MESP anticipates funding many ongoing activities in the areas discussed above: **Long-term Training, Microfinance, Land Tenure, Intellectual Property, and the dti new campus PPP**. The University of the Western Cape programmes will continue

as discussed, as will some of the previously agreed training for National Treasury. The Round 3 of the **HIV/AIDS Research** is expected to accelerate with increased quality of studies and additional donors joining in to co-fund research. The greater involvement by government departments will hopefully continue to inform the research, and the research will certainly guide policy in many fields of economics and governance.

The **Southern African Tax Institute** will receive funding by the SEGA/MESP project for their highly successful training programmes in tax issues. Support to the Mandela Economics Scholars and the University of the Western Cape will also continue through early 2005.

Training for returning Parliamentarians will continue. The elections expected in April 2004 will present an opportunity to train **new Parliamentarians** on economic literacy early in their tenures. SEGA/MESP and USAID will continue to work with APAC and are exploring co-funding opportunities with other donors on some Parliamentary activities. **Economic literacy** training for members of NEDLAC will also be initiated, and we also plan to support **training in data analysis** around poverty issues for the Department of Social Development.

While we have not been directly involved with the dti's on trade issues due to ongoing SACU-US free trade agreement negotiations, SEGA/MESP may be involved in trade capacity building as the negotiations progress.

OTHER MATTERS

To the end of September 2003, the project had expended approximately \$22.7 million, out of a current contract ceiling of \$25.7 million. Final negotiations are ongoing for a \$3 million contract extension to cover activities for approximately the next two years. The project officially ends in January 2006, but it is likely that a new mechanism for USAID's economic capacity building will be initiated long before then. A "design team" of USAID personnel from outside the mission visited South Africa in November 2002 and discussed the need for consolidation of SEGA/MESP focus areas. This is occurring. The design team focus on budgeting and the uncertainty about contract negotiations combined with a large number of existing commitments like scholarships meant a noticeable slowdown in spending over the year.

Expenditure numbers are also down considerably due to the successful refund of some monies paid as VAT. VAT reimbursement claims are now submitted monthly, and the VAT refund is reflected as a negative expenditure on the invoices to USAID, thus increasing the total funding for the project.

The indicators for the project should be revisited slightly since the Joint Center "grants" activities are being phased out and what remains of this component of the project are now contracts for HIV/AIDS research, much like SEGA's support to government activities. Compressing the intermediate results (IR 4.2 "Strengthened Government Entities to Formulate, Implement and Evaluate Economic Policies" and IR 4.3 "Strengthened Economic Think Tanks to Formulate and Evaluate Economic Policies") would probably make sense. Parliamentarians are currently counted in short-term training (IR 4.2), but as this programme becomes more structured, they may fit better into the long-term training numbers (IR 4.1)

There have been some staff changes over the year: Jaci Conley, who managed the MESP and other training programmes resigned in December 2002. Ms. Mandlakazi Madaka, who has been with the project since 1998, now manages that component. Ms. Elizabeth Ninan, Grants Administrator for the Joint Center resigned in August 2003. The Joint Center will finish its subcontract with Nathan Associates for the SEGA/MESP at the end of the calendar year.